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Bucharest Statement
on

CHANGE: SYSTEMS AND PEOPLE

ROUND TABLE ON GLOBAL DEVELOPMENT CHALLENGES

BUCHAREST STATEMENT

on

CHANGE: SYSTEMS AND PEOPLE

4 - 6 September 1992

UNDP Development Study Programme

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PREFACE

UNDP Development Study Programme convened the second Round Table in a series on Global Change in Bucharest, Romania from 4-6 September 1992. The first session on "Change: Threat or Opportunity" was held in Antalya, Turkey 2-4 September 1990.

The world entered the decade of the 1990s with unprecedented hopes and dreams. The Antalya Round Table considered whether the striking changes taking place would bring fresh impetus needed to meet global development challenges in the years ahead. It presented a series of recommendations to ensure that the changes should not become a threat, but a true opportunity for human progress.

The subject of the Bucharest Round Table was "Change: Systems and People". The objective of the session was to analyse dramatic ongoing worldwide changes in a variety of governing systems, both in their concepts and structures, and their possible impact on the lives of people.

The Round Table met in four plenary sessions. The topics on its agenda were discussed in four working groups: "Political aspects", chaired by Louis Emmerij, President of the Development Centre of the Organisation for Economic Cooperation and Development (OECD); "Economic aspects", chaired by I.G. Patel, Former Director of the London School of Economics; "Human aspects", chaired by Joseph C. Wheeler, former Chairman of the Development Assistance Committee (OECD); and "Issues related to countries in transition", chaired by Leonard Silk, economic columnist of *The New York Times*.

The opening session and first plenary meeting of the Bucharest Round Table was chaired by His Excellency Mr. Ion Iliescu, President of [redacted] Romania. Over 120

participants from 39 countries took part in the Round Table. They included eminent statesmen, leading international thinkers, policy-makers, development practitioners, academics, journalists and businessmen. The Round Table was also honoured by the presence of Her Royal Highness Princess Basma Bint Talal of Jordan; His Excellency Theodor Stolojan, Prime Minister of Romania; His Excellency Adrian Nastase, Foreign Minister of Romania; His Excellency Anatoli Zlenko, Foreign Minister of the Ukraine, and several ministers or deputy ministers of other countries. The participants who attended the Round Table expressed their views not in their official but in their personal capacities.

At the end of the proceedings of the Round Table, the four chairpersons of the working groups presented summaries of the discussions and recommendations of the participants to the concluding plenary meeting of the Round Table.

This final version of the Bucharest Statement, edited by Üner Kirdar and Leonard Silk, reflects the main ideas and concerns expressed during the discussions in the Round Table, and is based on the reports delivered by the Chairpersons. However, as this final text was not reviewed by each participant, it should not be assumed that it presents a consensus on every point or that every participant subscribes to the recommendations, observations and conclusions contained therein.

THE BUCHAREST STATEMENT

FOREWORD

We met in Bucharest, Romania to analyse the profound changes in governing systems that have struck the world in the past five years. Those changes may open new horizons for individuals to achieve their political, economic and social goals and aspirations. However, if not properly charted, they may also cause more stagnation, more economic and social disparity, more disillusionment, and more conflict. Our purpose in Bucharest was to identify specific policies and to propose actions which might be taken to convert fears to hopes and threats to opportunities to enable people to live in an environment of world peace, prosperity and social and economic development.

The dimension of these changes, and the opportunities they offer, are unprecedented in modern history. Among them, the most important are undoubtedly the disappearance of ideological barriers and the end of the cold war. The world now has the potential to become a much safer place, as superpower rivalry has disappeared and the threat of nuclear conflict has diminished.

At present, the fall of totalitarian regimes and the demise of ideological rivalries has promoted democracy as the basis for political, economic, and social life. But nations striving to build a new and freer way of life also face serious difficulties and mounting disappointments.

We warmly welcome and support this new quest for democracy, political pluralism, free and fair elections, as well as the growing convergence of views on effective approaches to economic and social development. The market economy and free enterprise are now becoming the prime ingredients for a more viable socio-economic system.

No doubt there is a close linkage between political freedom and efficient operation of a market economy system. Similarly, in

our view, world security is indivisible. Political stability depends very much on economic, social and ecological sustainability. We believe that political security and stability cannot be fully assured without economic and social progress. As emphasized by the Secretary-General of the United Nations, in his thought-provoking message sent to the Round Table, "...there cannot be development without democracy, nor can there be democracy without development".

As major nuclear powers are negotiating arms reductions, the proliferation of weapons of mass destruction still threatens to increase the number of conflicts in many parts of the world. Racism, nationalistic, religious and ethnic conflicts are becoming the most destructive forces against world peace and security. Devastating economic and social problems resulting from the growing gap between rich and poor both at international and national levels, disease, famine, drug trafficking, oppression and despair, barriers to trade, unchecked population growth, and crushing debt burdens are producing millions of new refugees, displaced persons and massive migrations of peoples within and beyond national boundaries.

The collapse of the Soviet Union and the changes in Central and Eastern Europe, as well as those in the new Central Asian Republics, have led to significant alterations in the world balance of power, with consequences which cannot yet be fully assessed. Despite a transition to freer and more democratic societies and towards market-oriented economies, very dangerous and alarming trends are emerging in most of these countries.

The movement toward democracy and ethnic identity has found expression in the emergence of a number of new sovereign states. However, the long-term economic viability of some of these new states may be questioned in a world of increasing regionalism and globalism. Today, in different parts of Europe, we are also witnessing the resurrection of aggressive movements of

nationalism, ethnic, religious and racial differences which are provoking massive armed conflicts, aggressions for territorial expansion, hegemonic domination, political oppression and genocidal tyranny. Thus, grim memories of the wars and oppressions that took place earlier in this century have been awakened. Thousands of innocent lives have been sacrificed, personal property destroyed, and cultural heritages damaged in the worst tragedies since World War II.

To build true democratic and pluralistic societies, we must reject all types of racial, religious and ethnic bigotry, discrimination and aggression. We must learn and practise freedom and tolerance where diversity is fully respected and protected. Genuine democracy requires full respect of fundamental freedoms, human rights, deeper understanding and equal treatment of both minorities and vulnerable groups in every society.

We urgently need greater understanding of what provoked the profound causes which led to present changes. We have to consider how effectively we can respond to existing and mounting disappointments and divergences. We must concentrate on the real issues of improving people's lives.

In the quest for a better future people of countries in transition are confronted with huge economic, social and employment problems. They need the full support of the international community. This support must not, however, affect North-South cooperation. To maintain global peace and security, the iron curtain which has been lifted between East and West should not be replaced by a curtain of poverty and social ills, dividing Europe again into two camps. Let us not forget that measures to achieve the transition cannot exceed the limits of human endurance.

In this post-cold war period, "change" and "transition" are global phenomena. There is no single model of transition to be prescribed for all countries or for post-communist societies as a

whole. In this process of change, each country and society must take into account its own special needs, traditions, cultural heritage, values and ethics related to its basic structure.

In our view, however, one thing is certain. People should have the right to determine freely their own system of governance. Indeed, we can no longer operate through systems which our shrinking planet has rendered obsolete. The revolutionary changes now taking place provide the countries of East and West, North and South, with the unique challenge of meeting the legitimate demands of people for more rapid economic and social advancement and equality of opportunity. This challenge involves also charting better, safer and more rewarding future, in which human capabilities can expand and individual initiatives and aspirations can be liberated.

This is our basic message from Bucharest and the framework within which our findings are set. It is a theme that runs through the four different areas which we address below.

We express our deep gratitude to the people and Government of Romania as well as to the UNDP Development Study Programme for giving us the opportunity to consider this important subject. We also thank them for providing us with the possibilities to make modest recommendations towards ensuring that the changes now taking place in governing systems will open new horizons for people and provide opportunities for human progress.

I. POLITICAL ASPECTS

We asked ourselves: what are the characteristics of the new world we have entered? What shape or shapes will the transition from one world to another take and what will be their impact on people? What relationship, if any, exists between political freedom and economic efficiency? What kind of capitalism would be best for East and South? In this context could we design a type of capitalism with a human face and what are the various development models that can be developed from the lessons of experience?

Shaping a new world order

Three years ago, a wave of optimism invaded the West and indeed the world in general. A hope was held out for a better world with more freedom and more efficient economies. Central and Eastern Europe, as well as the Soviet Union, were to return to "normality". To quote the poet, "Bliss was it in that dawn to be alive". Today, the situation in many Eastern European countries has deteriorated; the transition road is very bumpy, and the outcome uncertain.

There is a view that the "new order" may be defined as "the West and the Rest". Some feel that the "rest" of the world has to adjust to and accommodate the ways of the "West" and that the West has no need to make adjustments of its own. This is, of course, debatable.

The trend towards globalization in the world economy, however, is not truly global. While the East makes a desperate attempt to link to the main thrust of the world economy, parts of the South are being delinked. This is particularly the case for Africa, which is gradually drifting away. In spite of these preoccupying features, it remains that dynamic changes are taking place both in East and South. This is true with respect to both

political institutions and the trend towards democracy as well as with regard to economic and financial policies that are presently putting so much emphasis on liberalization, privatization and deregulation.

East and South are now practising what the West has preached for so long. But as these countries are putting their houses in order, the West seems to be struck by a strange immobility. The West does *not* practice what it preaches, as illustrated by, for instance, its agricultural policies, the Multifibre Agreement, budgetary deficits, and so on.

Thus, there is a growing discrepancy between the changes in national governance in East and South and the immobility at the level of international governance which is largely in the hands of the G7 countries. There is a great lack of vision and of political courage in the Western democracies. There is also a confusion on governance — between less governance and good governance. Instead of long-term perspectives, short-term interests and inward-looking politics prevail.

Transition and its impact

During the transition from one world to the other in Central and Eastern Europe and the former Soviet Union, we observe a redistribution of wealth in favour of the farmers, of workers in light industry, and of financial "wheelers and dealers". The redistribution of wealth is moving against most of the other workers, including those workers in the cultural sectors. All this gives rise to greater insecurity. Ordinary people must be able to benefit from the new regime in the New World; otherwise, there will be growing tension.

It is not yet quite understood that privatization is less important than marketization. This leads to the question of whether people truly understand how the other World really functions. To

use a metaphor, one might say that under the communist regime people lived like captive animals in a zoo. Basic needs were satisfied and things were organized. They dreamed however, of escaping from the confines and seeking the freedom of the jungle. The only thing was they could not leave! But they had forgotten, or indeed they may never have known, that life in the jungle is full of dangers, and many do not survive.

Linkages between political freedom and economic efficiency

Many countries both in South and East are now trying to achieve market economies and political democracies *simultaneously*. It must be stressed that the relationship between political freedom and economic efficiency is more complex than is now put forward.

Some of us feel that if one looks at what has been going on in the world, one observes that very often the relationship was the other way around: from economic efficiency to political freedom. This was the case in Spain, in Chile, as well as, more importantly, in East Asia, including Japan and South Korea. One should therefore be very careful in imposing political conditionality which would assume that political democracy is a prerequisite for economic growth and development. It is certainly true that, in the long run, there is no sustained economic development possible without an incentives system that gives more initiative and therefore more freedom to the individual.

People in different parts of the world have profound aspirations. They must be given space to develop them in the way they want. No Western models should be imposed. Just as there are different forms of capitalism, so there are different forms of democracy.

Lessons from experience

Development is about far more than economic performance alone. It is about the whole texture of cultural and social life. Ethics and values are fundamental to all human activity; qualitative and quantitative considerations are therefore closely interrelated; freedom, human rights and accountable government are essential to empowerment and improvement of the human condition, but to be secured they have to deliver measurable results; they will be betrayed if economic disciplines and effective technocratic organization are not given the highest priority. The term "democracy" itself must be used with care. There should be a sensitive approach to the various forms which it can take. The invariable principle is accountability of power in all its manifestations. There is no rigid or absolute dividing line between the private and public sectors.

The responsibility of government is twofold: first, to strike a healthy and practical balance between the two sectors on the basis of common sense, rationality and pragmatism and not on the basis of ideological commitment; second, to safeguard the public interest in relation to both sectors without allowing bureaucracy to undermine the thrust and drive of entrepreneurship and initiative. Vocations and public service are special qualities in society; it would be tragic were they to be lost in a dogmatic interpretation of the market.

Looking at the lessons to be learned from different experiences, our conclusions and recommendations for East and South are the following:

i) There must be a political will to move ahead, and there must be a consensus between the different groups in society about this.

ii) The role of the state is of the essence. Countries must not move from one extreme to the other.

iii) There is practically no country in the world that historically has been able to build up a strong economic base without, in the early stages, doing so behind protectionist walls. Throwing the borders open at an early stage is counter-productive.

iv) Countries must create their own competitive advantage with their own hands, so to speak. For this, emphasis on science and technology and the development of human resources is crucial.

v) Whenever there is a conflict between economic development and political democracy, a delicate balance must be struck. Several of us believed that, in such a case, development should take priority in order to be able to establish a long-lasting true democratic system — the reason being that through economic progress, a working and middle class with a vested interest in a free and stable political system will emerge.

The conclusion for the West is that it also must look for a new model which combines high-tech and awareness and sensitivity to the social question. The growing dichotomy now being observed once again in terms of income disparities must be eliminated.

Internationally, there is a shared responsibility that must be reflected in global governance, in which the West practises what it preaches both in terms of international economic and financial policies, as well as with regard to international democracy.

II. ECONOMIC ASPECTS

Within the context of economic aspects of global change and the process of transition, our discussions covered changes in all groups of countries. We began our task with a broad overview of the prevailing situation. First, we examined the state of the international economic environment; we then reviewed the role of governments in correcting market failures, of competitive markets, of private investments and of joint ventures in the ongoing economic transformation. Finally, we discussed the policy-based conditionalities of international financial institutions, and the global interdependence involved in the process of change.

At the outset of our discussions, we decided to avoid two dangers. The first was to imagine that change takes place only in the ex-communist countries or the developing countries, and that we do not need to worry about change in the industrialized countries. We agreed that changes in industrialized countries are equally or more important because of the bearing they have on what happens in other parts of the world. The second was to ignore the lack of change in areas where it ought to be taking place, and that while we are all excited by change and accelerated change, we should not lose sight of this equally important fact.

The international economic environment

There was a certain strident mood at the beginning of the 1980s in the industrialized countries — they felt that they had discovered some new path to economic progress. There was much talk about radically changing earlier policies. But at the end of the decade, at the beginning of the 1990s, the mood is more sober. There is a certain sense that problems were oversimplified and evidence that expectations have not been fulfilled. This mood has also been shared by the international organizations. The attitude of the World Bank and the International Monetary Fund has grown more anxious. There are reasons for this. Things have not come up to

expectations, even in the industrialized countries, by their own standards. The rates of growth have been low, unemployment has been high and the Uruguay Round has not come to a satisfactory conclusion. European integration seems to be in the doldrums. World production and income fell in 1991 for the first time since World War II. Even inflation, which was supposed to be greatly reduced, did not prevent the economic slow down. Recovery from recession remains uncertain and fragile. There is a growing awareness that economic objectives are not so simple to attain any more. And there are other concerns. People want growth with a human face and they want social harmony. It is not possible to focus on a single objective, to the neglect of others. All this leads to a kind of complexity, which has made for sobriety and humility.

When studying developing countries, one is most struck by the fact that differences are great within the developing countries themselves. One cannot speak of developing countries as a group any more. They are so many in number and so different in character. On the one hand are countries like Korea, Argentina and Mexico, which aspire in the short-term to becoming members of the OECD. On the other, there is Mozambique with a per capita income of less than $100, and many of the sub-Saharan countries where today the standard of living is lower than at the end of the 1970s. Even the most optimistic forecast, bring them back, by the end of the century, to where they were at that time. For this type of developing country, one cannot prescribe a simple remedy such as promoting foreign investments and inviting foreign capital, because no commercial capital will go there. What is needed is of a fundamentally different nature, a much larger induction of concessional foreign capital with a lot of technical assistance.

Even for large countries such as India, Pakistan, and China, though their problems may not be so acute, remedies must be different. Such large countries have complex societies, with different histories and a variety of cultures. One cannot simply expect to reform them at the same speed and in the same manner

as the industrialized and advanced countries of the West. If one looks at other aspects of the developing countries with regard to change, there is hardly an analyst today who does not believe that developing countries are a class apart and that they must have special policies. We do not think that that is a major contention. Nor do we say that the change that affects the rest of the world does not affect the developing countries. It does affect them, but differently, and therefore requires a different kind of response. The best example is that of technological change.

Technological change

Technological change is the real basis of economic and competitive power — for the developing countries it is also their one great hope. But in the short run, there are a number of countries that simply cannot compete with industrialized countries in the adoption of new technologies, because of the lack of skills and lack of resources. In a competitive sense, they are marginalized and are increasingly falling behind. That is the great danger. They may try to resolve it partially by saying that internally they should apply modern technology by inviting foreign investment in some areas and forget about the rest. Unfortunately, that is what most of these countries are doing and in the process they are creating dual economies. A small area becomes rather rich, prosperous, upcoming, even exporting, and the rest of the country is left well behind. Such an outcome normally creates its own tension. Through the globalization of communications today, poor people are aware of what is going on in the rest of the world and their expectations become greater. They do not realize that their lifestyle becomes artificial — something beyond the competence and the strength of their countries — and that, too, creates its own tension.

Globalization and regionalization

It is a now a generally accepted view that globalization has created an economic and social interdependence between countries. It is

true that capital is moving freely from one place to another. However, the same freedom does not exist for the labour force which is the greatest asset of developing countries. Indeed, there are strict regulations governing any movement of workers. It also seems that the moment the developing countries learn to produce something that is labour intensive, (for example, shoes and textiles), restrictions are immediately applied on those very products, and even the Uruguay Round fails to do anything to remove textile restrictions. It also appears that regionalization is restricted to the countries of North America, the Far East and Europe. Many parts of the world are totally excluded since there are no partners for most of the developing countries of the Middle East, Asia, and Africa. It would seem to encourage these countries to divide into blocs and exchange bargains among themselves. Even then, large parts of the developing world will not be able to join in. This only highlights the point that one solution will not solve every problem.

Role of governments and markets

We had a thorough discussion on the role of governments and markets, and recognized that the role of governments is essential in certain areas. They should maintain stability, redistribute income at a fair rate, correct market imperfections, provide public goods. That gives a very large role to the public sector, if one simply goes by theory. And yet, we must ask ourselves why we are disappointed in the role played by the public sector. Perhaps some of our assumptions about the nature of government are no longer valid. Governments, curiously, do not know all that much. They are supposed to spread information, but their information is often limited. They are not all that objective either, and do not always represent social interests, indeed they can be vulnerable to vested interests and even then their authority does not reach far. People do manage to bypass governments, and government policy is therefore often ineffective.

The same is true of markets. When our opinion of government deteriorates, we turn to the market for hope. But markets can also be manipulated by vested interests and often are. When countries espouse privatization, rich people and vested interests that control the political machinery may be the only ones who benefit. The notion that markets cannot be cornered or compromised, as governments are, is romantic. We believe that a way in which governments restrain the markets and markets restrain the governments must be found, and we believe it is possible. How exactly this should be achieved is a matter for discussion; but what is at issue is not one or the other, but how to check one and balance the other.

It must also be emphasized that governments are not alike; one has to be clear when speaking about the capabilities of governments. And we should not forget that there are civic organizations, universities and churches which have a role to play.

The question of how to make markets more competitive has no simple answer. Clearly, larger — usually globalized — markets are more competitive. The main reason for advocating the opening of borders and trading systems, even in the developing countries, is because that is the only way competition will really flow through the entire economy.

Policy-based conditionality

It is now well recognized that one cannot have access to international lending unless one accepts the rules of "so-called conditionality", namely the imposition of terms for economic policies or reforms as a requirement for the granting of loans. Conditionality serves the purpose of removing immobility from the economic policies of developing countries. It is always easy for governments to avoid taking action, but when money is needed there is no easy way out. The World Bank and International Monetary Fund possess a broad knowledge of economic

development which may not be the latest, or the best, or be always right, but it is often better than what individual developing countries have. Therefore, dialogue between the lending institutions and the borrowers is useful and the process could be improved by changing the style and the language. Instead of conditionality imposed by one party on another, a relationship could be shaped by a statement of common purpose, mutually agreed upon and based on trust. It could be a continuing relationship rather than an episodic affair, kept alive by periodic injections of money.

Although the situation is now calm, there is a danger that the question of conditionality will once again cause a volatile reaction on the part of the developing countries as well as the countries in transition. There is at present a pressing need for social safety nets to protect the most vulnerable groups of society from the impact of adjustment policies and transition reforms. Also, negative flows of money are caused by international institutions taking money away from the poor countries; this is unlikely to change given the attitude of the rich countries towards development assistance. In that kind of situation the developing countries will soon lose their flexibility. When you do not get any money, you are less likely to be receptive to the advice you receive.

At the same time, the richer countries are now extending their areas of conditionality to cover governments, corruption, human rights and the environment. It is no longer merely a question of how much money is supplied and what is done to control prices or the exchange rate. And when there are internal pressures in developed countries to enlarge the area of conditionality and their power is reduced, the possibility of tension and strife is very real and it would be unrealistic to ignore it.

If a better functioning of the world economy is our common objective, the application of sound economic policies and policy-based conditionality by developing countries alone is not sufficient.

These must also apply to the more advanced economies of the industrialized world, those experiencing deficits as well as those with surpluses since these countries have, after all, a greater say in shaping the world economy. Recent turbulence in the world currency market is further proof of this necessity. The present policy confusions of industrialized countries are not a good example for the pre-industrialized world.

There is so much preached about economic policies, yet we cannot emphasize too strongly that no ship of state in this work-a-day world can be put on automatic pilot for long.

Exploring the future

We also decided to look into the future. We felt that this could not be achieved fully merely on the basis of facts. Different scenarios should be drawn and the most realistic ones adopted. This rarely happens because our leaders seem focused on the short term.

Today, we talk about riots in Germany because of immigration activity. It is fair to assume that for the next one hundred years immigration will take place, whether or not it is allowed officially. In order to reverse the situation, one has to go to the heart of the question, namely, what provokes immigration? Unless significant economic growth takes place in developing countries, there is no way to prevent massive movements of people to the developed countries. But where can we find statesmen willing to raise such an issue nowadays?

In the future, more support must be given by richer countries to encourage technical change in the developing countries. There is need for a change in attitude, shifting away from immobility and becoming more responsive to the needs of Eastern Europe and the developing countries. But, among the developed countries, there will have to be better coordination of their policies. Given the fate of the capital markets and indeed everything else, what one

country does impacts on other countries, so it is more important for the richer countries to be aware of what they are doing and the need to coordinate their actions. Not only is it important for them, it becomes important because of the effect which the exchange and capital markets have on developing countries, in Eastern Europe, and elsewhere.

Finally, we looked at international institutions and how they should be reformed. Looking ahead to the fiftieth anniversary of the United Nations in 1995 made us wonder whether the United Nations can do the job of reconciling human relationships. Human nature cannot easily be changed; it is naturally selfish and uncooperative. But whatever it is, can something be done by institutional devices to provide a better basis for global governance for human progress than has been the case so far? Could the present time of momentous change set the stage for strengthening international cooperation for the benefit of all?

III. HUMAN ASPECTS

We examined the relationship between good governance and development — how to correct market failures, especially during the process of transition, in the areas of education, job training and health care, for example, and how to correct social ills such as poverty and environmental degradation. We also discussed the importance of respect for human rights, ethnic and religious diversity and the religious transformation and societal changes.

Good governance and development

The concept of good governance began with the simple idea of honesty and efficiency in government. Now we have a much more detailed concept, dealing also with the establishment of an enabling environment for economic and social progress, law and order, property rights, information, transparency, and participation. We now realize that there are also critical issues related to the psychology of populations. This is especially valid for countries in transition. How can a public consensus be obtained on new goals, when the mechanics of obtaining such a consensus involves changing the public's behaviour patterns? What is the role of values? How can a market economy replace the theoretical but unimplemented communist system?

Good governance is especially needed internationally in economic relations between nations. Decisions on economic policies should be made in a broadly representative framework that does not really exist today. Important decisions affecting the world economy with regard to trade and monetary issues, for instance, are now made in smaller forums. Aid processes often do not reflect sensible priorities. We need to consider how international processes can be made more broadly participatory and how to narrow the gap between rhetoric and performance.

Good governance can be measured by seeing how successful a country has been in creating the ability to achieve consensus, to develop a strategic capacity and to modernize.

Correcting market failures

We discussed how education and health care can best be managed and financed. We recognized the many approaches being tried, including extremes such as leaving the private sector to do it all. Depending on local circumstances, various combinations of public/private partnership are possible. But in the end, perhaps an even more important issue is, who benefits? In most cases, the present situation reflects power structures which favour ruling groups over the general public, or costly subsidies to the wealthy at the expense of the poor. The concept of public goods can often be separated entirely from government. People can band together to provide public goods, for example, farmers getting together to use a field efficiently for grazing. Non-governmental organizations may also be tapped as a good source for public goods. Use of market systems and optimizing cost recovery are ways to promote efficiency in the provision of social services. But we have a serious concern about inequity in the availability of services and imperfections in the market.

Correcting social ills

There is an urgent need to accelerate development and to fight poverty, thus speeding up the process of demographic transition and attracting people out of fragile ecosystems. We are living in a period of an aging North and a young and angry South. The United Nations Conference on Environment and Development held in Rio de Janeiro in 1992 emphasized the linkage between such issues. It was mentioned that the independent republics of the former USSR may well suffer from a loss of pre-revolution environmental legislation. It is to be hoped that the pressure of

public opinion, encouraged by burgeoning civic activities, will counter any such loss.

We had ample discussion not on whether but how to place a value on the environment. Use of economic instruments such as carbon taxes and tradeable permits were suggested, but there was a divergence of view as to how practical these techniques might be. It was fervently hoped that countries would look for ways of applying the "polluter pays" principle to North-South relationships, with the equivalent of tradeable permits, the yardstick being population size, not economic strength.

The multiple roles of non-governmental organizations as providers of goods and services, as central players in a participatory society and as innovators and advocates was discussed. In a climate of change, we should be alert for potential new NGO roles. There has been a rapid increase in such activity in developing countries, where they often challenge society with unwelcome messages, calling attention to famine or persecution. They are sometimes better able than governments to provide services, and they would benefit from improved legislative frameworks for their operations. These should be designed to fit the local situation, not simply be imports of outside models. They need to participate in their own governance.

Status of women

We discussed many questions about the status and role of the underprivileged in societies, in particular the position of women. Whether ongoing change and its effect on systems will promote an advancement in their status remains to be seen. But the narrowing in the "man-woman" gap should be a prerequisite for social and economic advancement.

The lower status of women in many societies, especially in developing countries, is one of the main factors delaying social and

corresponding economic development and transformation. Countries now moving to a market-oriented system will find that competitiveness is a key factor for success. This necessitates appropriate education, capability and innovative skills. Women in many societies, with underprivileged facilities in education and low participation in the labour force, are not equipped to compete on equal terms. This calls for a radical change in the equality of opportunity for women, for their education, their status in society, participation in decision-making, as well as the enhancement of their job opportunities.

Impact of diversity in culture

During the process of change, governing systems must pay closer attention to cultural values and traditions of their own people.

Usually, the cultural dimensions and human, social and spiritual values of societies do not receive either the proper consideration or priority they deserve in the quest for development. Governments, faced with pressing and desperate short-term needs, overlook the importance of national cultural values and maintaining their integrity. Each nation should enjoy the dignity and creativity of its own cultural heritage. If properly valued and guided, such resources can give the necessary impetus to achieve the goals of change. We need to strike a balance between new technologies and cultural heritage. Even as we need to find room for earth's natural renewal, we need room for cultural renewal. Change is a process of recreating ourselves, and we need to encourage this process by being open to outside ideas.

Values and traditions

Values are changing all the time, for better or worse. There is considerable concern that Western values, such as consumerism, have overtaken systems that achieve inner satisfaction. There is also the problem of deteriorating family structures and values.

Nevertheless, some old values are often perverse to development, for example, preference for male children. In the end, value systems need to promote self-respect as a prerequisite to respect for others. This is related to the need to tolerate, appreciate, and protect diversity.

Respect for human rights, ethnic and religious diversity

We considered how these issues are related to the development process. While there seemed to be general agreement that aid can be legitimately cut off from countries sponsoring torture and similar cruelties, the issue quickly becomes complicated by the difficulty of drawing the line, assessing the facts and awaiting local remedies among other considerations.

We discussed the two-way relationship between democracy and development and the relationship between personal and political liberty and free markets. We discussed the question of ethnic minorities and the experience of some countries, such as Spain, in finding a balance between autonomy for ethnic minorities and preservation of national unity.

Finally, we discussed the need to integrate human rights into the development process. In the end, the great powers must approach the question cautiously. How far are we willing to go to defend the rights of the individual as opposed to the rights of society as a whole? How certain are we that our motivation in interfering in other countries is pure? Will our means of intervention accomplish our goal?

One would be hard pressed to find a country in which everyone speaks the same language, shares the same faith and belongs to the same ethnic origin. Most countries are made up of a mosaic of people, providing an asset and source of enrichment to the culture, heritage and values. However, at present we are

witnessing a rapid increase in the number of national, ethnic and religious conflicts, which are becoming ever more violent.

Despite their many differences, all systems of governance should promote and encourage basic freedom for all, with full respect for human rights, no distinction of race, sex, language, or religion. There must be promotion of the fundamental human rights of all segments of the society, men, women and children, as well as ethnic and religious diversity.

Human rights and freedom should be accompanied by an equally important concept of duty, namely responsibilities and obligations of people towards one another and towards their society.

Religious transformation and societal change

During the ongoing process of transition, the important role of spiritual values and religion on human life has been newly rediscovered. There is now a growing sense that progress calls for increased integration and interdependence of human institutions, on a global scale. We may find that we can cope with fundamental issues such as sustainability only with a spiritual reawakening, characterized by an individual appreciation of people, as brothers and sisters on an earth where the natural endowment must be revered and nurtured to make it available to future generations. Religion, however, is often seen as an impediment to such progress. At present, in various parts of the world, religious differences are becoming a key element in the struggles taking place for political dominance. Although each religion is normally defined by a set of traditional customs, forms and intellectual concepts that separate it from other religions, in reality and in substance, each religion contributes similar ethical percepts for human progress. As cooperation is the new ethic for change, why is it that in the twentieth century, different religions cannot provide constructive ways to bind people back together by weaving

different elements of humanity into a single fabric, at the same time preserving the rich colours of their diversity?

We need to emphasize the importance of a multi-religious society with a deepening of religio-spiritual experience coupled with a tolerance — even encouragement — of alternative religious practices. This can be promoted through education at all levels and through a determined effort to know other religions, learning from others as we move toward a planet-centred society. We seem to be replacing the idea of the melting pot with the idea of a mosaic, but a mosaic which, through dialogue, seeks the elements of a world ethic. At bottom, we need to find self-respect and spiritual self-sufficiency as a basis for respecting the spiritual values of others.

IV. ISSUES RELATED TO COUNTRIES IN TRANSITION

Within the context of special issues related to the countries in transition, our discussions began with a broad overview of the prevailing situation. First we examined overcoming the legacy of the old order; we then discussed how to integrate the economy of countries in transition in the world economy as well as the role of international support during the transition process. We also looked at the problems of privatization, trade and financial reforms.

The prevailing situation

The burst of optimism that greeted the downfall of Communism in Eastern and Central Europe and the former Soviet Union[1], has given way to the anxiety that it will take many years for these states to become effective market economies and democracies — and that some may not make it at all before dictatorship returns.

The end of the cold war was expected to bring great benefits to people in many countries, as resources were shifted from military to social uses. Thus far, however, the "peace dividend" is being paid in lost jobs and falling incomes. Theoretically, there is no reason this must be so; the greater prospects for peace should permit a nation to spend more on welfare-enhancing consumer goods and productivity-raising investment. But that can happen only if workers are prepared and trained to take new jobs, if financial resources are reallocated to create those jobs.

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[1] "Eastern and Central Europe" include Hungary, Poland, what was the German Democratic Republic, Czechoslovakia, Bulgaria, Romania, and Yugoslavia, and the former republics of the USSR: Armenia, Azerbaijan, Estonia, Georgia, Kazakhstan, Latvia, Lithuania, Russia, Turkmenistan, Ukraine and Uzbekistan.

In the absence of such shifts of human and material resources, there are strong economic pressures on arms-producing nations to maintain high levels of military spending, and to sell weapons wherever buyers can be found. Without a revival of national economies, and of the global economy, the production and proliferation of nuclear and conventional weapons will continue to endanger peace.

Experience after World War II showed that, if accompanied by wise and generous national and international policies, the conversion from war to peace economies can bring enormous benefits in its trail. After the most devastating war in history, with the help of the United States Marshall Plan and cooperation among victors and vanquished, the world economy enjoyed the longest and strongest period of economic growth in history.

But the situation that confronts the world today is radically different from that at the end of World War II. The United States could then deal with the external financial requirements for reconstruction without even running a budget deficit or a current-account deficit in its balance of payments. Today, the United States has huge internal and external deficits, and there are doubts that even the G7 major industrial countries could collectively provide enough capital for the ex-Communist countries together with those of the developing countries.

After World War II, the devastated economies of the industrial world were quickly revived. Virtually everyone was surprised by the speed of the transformation. The underlying knowledge and skills, the habits of thought, the economic and industrial institutions were still there. "I always thought it was impossible for the German economy to recover," said Theodore Schultz, later a Nobel Laureate in economics, who served in the Allied occupation of Germany. "we were dead wrong — British economists, American economists, and for that matter German economists too." They had all underestimated the real growth forces in West

Germany. The plants and cities that had been destroyed, Schultz said "were really quite secondary, minor details soon to be remedied."

Overcoming the legacy of the old order

By contrast, the collapse of Communist regimes and economies in Eastern Europe and the former Soviet Union, poses unprecedented tasks of political and economic reconstruction that, in many ways, are even more difficult than those faced by war-devastated nations after World War II. The problem of capital shortage is only one of the obstacles the former Communist states must overcome. They must also get rid of the Stalinist economic institutions and the habits and attitudes inculcated by years of Communism that now stand in the way of economic advance.

The obstacles to growth also include an irrational structure of prices; an excessive focus on physical output and producer goods; a neglect of services and the knowledge industries; environmental neglect and destructiveness that may be the worst of any countries in the world; enormous budget deficits and loose monetary policies that have bred inflation, concealed by price controls but revealed by shortages; "soft" budgets of enterprises that have bred inefficiencies in production and hampered transfers of resources to better uses; obsolete plants and equipment, and a hangover of industrial "giantism"; poorly trained labour and management; public suspicions of the old Communist leaders, agents, operatives, and bureaucrats — and public suspicions and resentment toward the new capitalists, many of whom were drawn from the old order or from criminal elements in society.

Conventional economic prescriptions for reforming the ex-Communist economies have neglected the barriers to economic growth posed by the inadequate legal, moral, and institutional foundations for an effective market economy. The commitment of foreign capital and direct foreign investment depends on the

strengthening of those institutional foundations of capitalism — and so does the revival of internal saving and investment. The "shock treatment" that many Western economists thought would swiftly do the job, is putting the Eastern economies and their people through a harrowing experience, with falling living standards and rising joblessness, social discontent and hostility toward foreigners or different ethnic groups.

The new situation facing the ex-Communist societies is more chaotic than the old. Crime is worse. The former reliability of state agencies in meeting domestic or foreign obligations has given way to greater uncertainties and is complicated by frequent demands for bribes or other forms of "lubrication" before deals can be consummated. And the splitting apart of the old Comecon trading bloc is depressing economies before they have gained sufficient access to the world market and to foreign capital.

Yet the old Soviet system collapsed because of both its economic failures and its political repression and alienation of subjected peoples. It cannot, in any case, be restored without forcing people to give up hope of a more efficient and humane economic and political system, combining private, public, and communitarian elements.

Problems of privatization and reform

Privatization has become a byword of the day. But neither in ex-Communist nor long-time capitalist regimes does the broad term "privatization" provide the answer to the most appropriate forms of ownership or control for all industries or functions. Nations need to consider the characteristics of those sectors of an economy that best satisfy individual or social needs, whether under private, public or mixed ownership.

The privatization issue is particularly important and difficult for the transition countries because of the uncertainties and hazards

of failure and mass unemployment may pose for uncompetitive industries in the ex-Communist countries. Finding the best way to privatize state industries will involve maintaining employment for those currently unable to move to new jobs but also resolving conflicts between the interests and values of different groups in a way that serves the difficult-to-define "public interest".

Is the public interest simply the sum of individual interests? Or, with those interests clashing, often because of differences in income and wealth, should the public interest be defined in terms of some principle, such as equality or social progress or individual rights or national independence and autonomy?

And should the resolution of conflicting interests or values be left to the "invisible hand" of the market — not because its solutions are perfectly just, but because it is likely to produce better and more efficient results than will political interests or particular politicians? Or should a "good society" regulate and correct the outcomes emerging from the market to take care of the needs of all, especially those worst off? But will politics, whatever its pretensions, inevitably serve the interests of the most powerful elements or class in the society?

As abstruse as such issues may seem, they are critical to the social and economic development of all nations, rich or poor, capitalist, communist or ex-communist. There is no "ideal" answer to such questions, given the differences in national histories, cultures, values, goals, and public preferences.

The transition process: Relationship of political democracy to market economy

Our Round Table faced an overriding issue that embraced all political, economic, and human dimensions of the transition: Is political democracy vital to the market economy?

Economic and political theorists differ in their answers. Some maintain that democracy and capitalism do not necessarily go together, indeed that they are "strange bedfellows"; they note that some countries, especially in Asia, have moved ahead economically without creating democracies on the American or Western European models.

But other thinkers argue that, whatever the problems of sequencing the transition to a market economy, democracy is, in the long run, crucial to achieving an effective and dynamic economy — and that, conversely, free-markets are vital to political freedom and democracy.

Although history offers many examples of repressive societies combined with market economies, there is not a single example of a democratic society that is not also a market economy. It would thus appear that a pluralistic economy is a prerequisite for a democracy, although the converse may not be the case.

Historically, democracy is a struggle against oppressive structures of the state or the inherent conflicts and social inequalities of unfettered capitalism. The evolution of Western democracy is, to a great extent, the history of how capitalism and the interests it has served have gradually been restrained by democratic processes. A similar process may now be under way in the Far East, possibly even in China, despite contentions of leaders of the Chinese Communist Party.

Some conferees, however, argued that the West should be careful when trying to force countries to accept a transplant of political systems which have no historical or "natural" domestic basis. They warned of a risk to the West in trying to force the pace of the introduction of Western democracy, maintaining that it is more likely to make economic development more difficult, rather than less so, and thereby, in practice, impede the movement toward functioning political democracy.

Several participants maintained that the market economy would work best, at least during the transition, when combined with a strong, even authoritarian, government. But others held that there is a "thirst" for democracy in many countries, stemming from ancient roots and fed by resistance to dictatorial governance — and by no means "imported" from the outside. The revolution in Eastern Europe certainly reflected dissatisfaction with prevailing economic conditions, but it gained strength from national and political demands for freedom and democratic rights.

At the same time, the recently established democracies in the East will be weakened if their political systems and institutions have dubious legitimacy, which can obstruct their economic revival — a point stressed by participants from the former Eastern bloc countries. If their economies fail, the dangers will increase that these fledgling democracies will also fail.

Unquestionably, there are problems in sequencing the transition from communism to market economies, and the guiding hand of government will be needed for the transition to succeed. But unless governments themselves maintain respect for law, respect for human rights, and permit people to hold to their beliefs and express them freely, individuals will lack the power to protect themselves or their environment, and otherwise advance their economic and social interests.

How to succeed

An open, stable and growing world economy and polity will require systems or government that are respected and respect-worthy. Such governments must respect the rights of their own people, not just those of foreigners or a privileged class within their society. The goals of political freedom and protection of human rights cannot be treated as secondary to, or separable from

the goal of economic freedom and progress. Ultimately, these goals are joined together.

In this spirit, we offer the following conclusions:

1. Managing the transition is a worldwide problem and is not limited to Eastern and Central Europe and the Commonwealth of Independent States. The problems of moving to market economies and political democracy are country-specific, because of different national histories, cultures, institutions, social values and popular preferences.

2. The people of Eastern Europe and the CIS can succeed in achieving the economic and political development they seek, only if they take the initiative and rely fundamentally on themselves. But they need and deserve help from the outside as well.

3. Because of budgetary constraints and capital shortages in the industrialized countries, external help to Eastern Europe is likely to come less from governments than from private foreign investment — provided that the investment climate and means of payment are acceptable. Government assistance, however, will remain important, not only via financial aid or loans but especially through the opening of their markets to trade, technology transfer and education and training of labour and management in the East.

4. World economic growth and open markets are vital to facilitating the transition of former communist countries to market economies. Achieving global prosperity will depend most importantly on the coordination of fiscal and monetary policy among the principal industrial countries to further noninflationary growth. Cooperation is also needed to insure a stable exchange rate system.

5. Over-optimism can lead to unmanageable deficits, inflation, and economic breakdowns. Inflation undermines the value of a nation's currency, will prevent it from participating in the global economy and lead to stagnation or decline at home.

6. The prevention of unemployment was a major attraction of communism. To facilitate the change to a productive market economy that satisfies people's consumption needs and desire to work, governments must take the responsibility of creating jobs and educating and training workers to handle those jobs, or people will grow resentful and restive for a return to the employment security of the old regime. Governments should look to the need to improve the infrastructure as a means of job creation.

7. Outlays on pollution abatement should be built into current operating expenses as Eastern European and former Soviet production levels are restored.

8. Producers in the transition countries must recognize the need for continuous small-scale product and process innovation. Competition for markets and the opportunity to earn extraordinary profits will spur such innovation. At the same time, governmental aid to research and development can contribute importantly to the productivity and industrial growth of both large and small enterprises.

9. The West should not try to dictate or impose its own system on the countries in transition; rather, Western nations should be tolerant of diversity and be willing to learn from work with others. Economic and political reforms must be pragmatic and based on a correct evaluation of the background of every country — and of the region as a whole in the history of Europe.

10. Solutions to the diverse economic problems of the transition countries cannot be black and white; a combination of federal support and private enterprise should be sought. The re-education of former officials and administrators of the former Soviet Union is essential, since the older managers were trained in communist ways and the younger generation, despite having many diplomas, have frequently received a poor education. Technical assistance programmes, from Western governments, corporations, and universities, especially schools of business, are required.

In conclusion, we urge the people of the transition countries not to lose heart. One of our more romantic members said the problem of the transition is like falling in love: at first, you have the ecstasy, the joy; then, after a few years, disillusion sets in. But, our discussant said that after the initial euphoria and before the disillusionment, one must avoid despair by going for the long run.

As the German proverb has it, all beginnings are hard; we have had a very hard beginning to these revolutions. We are still in the midst of them and we have a long way to go. We must not abandon hope, and we must not give up. We must take this transition to the end, and most of all the end must be a humane one.

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